

Co-operatives ARE for People

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Ministry of
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INTRODUCTION

There are more than 450 co-operatives in Ontario, and the number is steadily increasing. Many individuals and groups believe that the organization of a co-operative is the best method of acquiring reliable services and dependable goods at a cost lower than that paid by other consumers.

But there are pitfalls. It is not easy to organize and run a successful co-operative. Methods of operation, agreements between members, financial arrangements and management are all areas where there may be difficulty if the objectives of the co-operative are not fully understood from the beginning.

The Ministry of Consumer and Commercial Relations has prepared this booklet to outline the advantages of co-operative corporations, to tell you how to start one, and to give you practical help in delineating goals and responsibilities.



Co-operatives: People helping people

A co-operative is a group of people who have joined together to provide for themselves the best possible goods or services at the lowest possible cost. For that reason, there is a strong sense of community and support among the members.

The idea is not new. In England in 1844 the Rochdale Society of Equitable Pioneers banded together to provide for themselves essential goods and services of dependable quality. It was operated at cost, as are present co-operatives, and its rules serve as a model for those of today:

- open membership
- democratic control
- a fixed low rate of interest on capital
- distribution of surplus to members in proportion to their purchases
- cash trading
- selling only pure and unadulterated goods
- provision for education
- political and religious neutrality
- sale of goods at retail prices

Objectives

Before you organize a co-operative, be sure you understand your objectives and what a co-operative corporation can and can not do. A co-operative is **not** an investment which will necessarily return a profit to members. A CO-OPERATIVE IS A GROUP OF PEOPLE WHO HAVE JOINED TOGETHER TO PROVIDE SERVICES AND GOODS AT A LOWER RATE than that available on the retail market.

How? By replacing the middleman, sometimes by using the voluntary (non-paid) labor of the members, by reducing frills and by keeping inventory and waste to a minimum.

Replacing the middleman: In a consumer co-operative, delegated members buy in bulk from producers and wholesalers. By doing this, they eliminate excess handling, transportation and labor charges which would be added to the price of the goods by the time they are sold in retail stores. Close co-operation among members is essential, however, to prevent the purchase of unwanted goods and to avoid shortages which could discourage members. Some of the members, therefore, must be expert in the purchasing field.

Voluntary (non-paid) labor: Babysitting co-operatives and nursery school co-operatives often operate on this principle. Members are required to work a certain number of hours per week. Regulations drawn up by the group should include alternatives or penalties if members can not or do not follow this condition.

Reducing frills: Food co-operatives are often located in small warehouses. Recorded music to tempt the consumer, glistening displays to entice shoppers and advertising are avoided.

Keeping inventory and waste to a minimum: Because co-operatives work on the smallest possible budget, there is no money left over for mistakes. Buyers for co-ops must be expert at choosing the right goods in the right quantity at the right price. It's not an easy thing to do.

Food co-operatives are perhaps the most vulnerable, as one truck load of rotting perishables could wipe out the financial stability members have struggled to maintain. One method used by some co-operatives to avoid the problem is to have each member place his or her weekly order, after which the buyer chooses from the producer only what is needed for that week.

A pitfall of this system though, is that the member who has unexpected needs may not be able to fill them. Also, if the quality is not to the member's satisfaction, the item may not be purchased.

Advantages of the formal structure

All too often a group of people decides to work together to provide cheaper food or day care or clothing or any other goods or services. They don't think incorporation is necessary. Maybe they are all friends who don't see the need for a formalized structure.

But there are hazards.

If a child is hurt in the day care centre or a customer falls in the food store, everyone could be sued. There is unlimited liability.

If, however, you are incorporated under The Co-operative Corporations Act, your liability is limited to the amount of your investment.

How to start a co-operative

First, be sure you realize what a co-operative is and what it isn't. Be sure you know that you will have only one vote regardless of the amount of capital invested in the venture and be sure you understand that you will have responsibilities equal to those of all other members.

IT IS NOT AN EASY TASK TO ORGANIZE AND OPERATE A SUCCESSFUL CO-OPERATIVE.

Once you have decided that a co-operative corporation is the best way to fill your needs, you should obtain a copy of The Co-operative Corporations Act, which is available at six dollars per copy from:

Ontario Government Bookstore
880 Bay Street
Toronto, Ontario
M7A 1N8

Study the Act carefully. If you have questions about the requirements or the regulations, call the co-operative corporations services branch of the Ministry of Consumer and Commercial Relations at (416) 965-6834.

Two types of co-operatives

After you have studied the Act, decide whether your co-operative should be incorporated **WITH OR WITHOUT SHARE CAPITAL.**

Any business enterprise needs capital, and co-operatives are no exception. The decision about whether to incorporate with or without share capital must be studied fully.

If your venture will require much capital, for equipment or supplies or initial stock, it would likely benefit from share capital incorporation.

Share capital: As a requirement for membership, patrons must buy shares in the co-operative. This is, in effect, an investment in the co-operative. If the co-operative is not successful, your

investment may be lost.

If you decide to leave the co-operative, you must give six months' notice in writing, and your investment will be returned to you, or if the co-operative would find that a financial hardship it may pay you one-fifth of your investment each year for five years.

Non-share capital: Instead of buying shares in the co-operative, members are required to lend the co-op a minimum amount of money on which interest is paid at a rate not more than that stated in the Act.

The basic difference between share capital and non-share capital is that the first is equity financing while the second is debt financing.

In a non-share capital co-op, there is usually no provision to pay back the term loan if a member leaves. Loans, of necessity, are usually long-term to give the co-operative stability.

Getting down to basics: Although co-operatives will vary widely because of their diverse objectives, they should have these basic characteristics:

Each person has only one vote: In a corporation, the number of votes you have is dependent upon how much money you have put into the company. In a co-operative, no matter how much you have invested, or how much money you have lent to the group, you have only one vote.

There is no voting by proxy: This stipulation, basic to the co-operative movement since the formation of the Rochdale Society of Equitable Pioneers, is a check against the accumulation of power by one or more members.

Interest on capital invested is limited to a percentage fixed by the Act: If the primary purpose of the co-operative were to make a profit for its patrons, it would defeat the purpose of giving service at cost.

Surplus, called the patronage return, is calculated each fiscal year and distributed to members in proportion to volume of business done by each: By-laws of the co-op may require that all or part of the patronage return be used to purchase shares in the co-operative or that all or part of the patronage return be lent to the corporation at a fixed rate of interest.

If volume of business is less than \$250 or any lesser sum agreed to by the by-laws, the co-operative may keep the patronage return for that member.

Choosing a name

A suitable name for your group should now be chosen. It must contain the word "co-operative" and must have as the last word in the name the word "corporation" or "incorporated". Co-operative corporations which have share capital may instead use the term "limited". The name you choose may not be the same as or similar to the name of any other person or corporation unless that person or corporation has consented in writing to its use.

The name must not imply any connection with the government or with the Crown or with any political party. It must not, in the opinion of the minister, be objectionable to the public.

Complete information about the selection of a name is given in sections seven through 12 of the Act.

While some unincorporated groups have been referring to themselves as co-operatives, it is actually unlawful in Ontario to use the word "co-operative" in connection with a name of a business or undertaking unless the organization is incorporated under The Co-operative Corporations Act.

When the name has been chosen, it should be submitted for approval to the names section of the Companies Division, Ministry of Consumer and Commercial Relations.



The corporate seal

When incorporated, the group must have a corporate seal with the official name in legible characters. This seal will then be used for all official documents.

The members

Any five or more individuals or corporations may become incorporated as a co-operative. These members are bound by the articles of incorporation and by the by-laws they have set.

Members of the co-operative must be at least 16 years of age, but they must be 18 before they may be an incorporator or a director.

Completing the articles of incorporation

Forms for incorporating with or without share capital are available from the director of co-operative corporations services branch. Be sure to specify which you require.

After the name has been approved, complete and return the forms with the incorporation fee of \$50.

Drafting the by-laws

Sample by-laws for either share capital or non-share capital incorporation are available from the co-operative corporations services branch. They will help to eliminate any oversights and protect you from inadvertent error.

You may wish to draft your own set of by-laws, which is acceptable so long as you have complied with all regulations in the Act.

Some of the topics you should cover in your by-laws include: membership; member loans or share capital; share or loan certificates; meetings of members; the board of directors and officers; distribution of surplus; patronage loans; borrowing powers; auditors; cheques, drafts and notes; bonding of employees and officers; custody of securities; execution of documents; fiscal year; dissolution; notices; amendments.

Initial meetings

When the name has been approved and the completed articles of incorporation have been processed, you will be sent a certificate of incorporation.

The founding directors of the co-op elect officers and enact by-laws which should subsequently be confirmed by the general membership. Banking resolutions should also be passed.

All members should understand the regulations and by-laws that have been drafted, and provisions should be made for this information to be disseminated.

Auditor

If membership is small, and financial assets are few, an auditor may not be required. If you have more than 15 members, capital of more than \$15,000, gross operating revenues exceeding \$100,000 or assets of more than \$50,000, the Act specifies that an

auditor must be appointed to examine the financial records and make an annual report.

The auditor must be impartial and may not be a director or employee of the co-operative. (See section 126 of the Act.)

Dissolution

If the members decide to dissolve the co-operative, they first must signify their intent by filing articles of dissolution with the ministry.

Net surplus is then either:

- apportioned equally among members, or
- paid out in proportion to the patronage rebate paid over the past five years.

Alternately, the money may be given to charity.

If the method of disposing of surplus funds is not stated in the articles of incorporation or by-laws, the funds will be apportioned equally to members regardless of number of shares held.

Co-operatives in Ontario

In Ontario today there are, in addition to housing co-operatives, nursery schools, taxis, food retailers, farm suppliers, milk transporters and other service groups all run on a co-operative basis.

HOUSING CO-OPERATIVES

Housing co-operatives, in existence for more than 100 years, are relatively new to Ontario. Because they provide good accommodation at prices lower than individuals could find on the open market, they are rapidly gaining in popularity.

Inflation and the high cost of serviced land in urban areas have put home ownership out of reach of most families, but many of the advantages of owning your own property are available through this method.

IF YOU ARE A MEMBER IN A HOUSING CO-OPERATIVE, YOU DO NOT OWN YOUR HOUSE OR UNIT. You own a share, or number of shares, in the co-operative corporation which holds title to the property. As an alternative to buying a share, you may be required to lend the co-op a specified sum of money.

As a member of the co-op, you have the rights and obligations of all owners. By voting at the annual meeting you decide how your property should be operated: whether pets will be allowed, types of play equipment to be purchased, maintenance of the unit and any other issue concerning the group.

Because the principle of co-operative development is one vote for each member, you have as much right to determine policy as someone with a greater investment.



Types of housing co-operative

Sometimes a group of people, who have decided that they can not afford single family dwellings, prefer not to rent. If they are willing to undertake and work with a co-operative venture, it may be their best alternative.

They may, after formally incorporating, buy the land, build the units and manage them themselves, with or without paid help.

They may find suitable housing that requires only renovations to fill their needs, and by incorporating provide themselves with the capital necessary for those renovations.

They may, after renting an apartment building, want to incorporate, buy the unit together, and operate it on a co-operative basis.

Each of these alternatives requires careful planning and continuing enthusiasm of the members.

Help for housing co-ops

Several government programs are available to subsidize co-op acquisitions and renovations. These programs can help fund the project from the planning stage through completion.

Start-up funds of up to \$10,000 are available from the Central Mortgage and Housing Corporation (CMHC) to help cover costs in the initial stages: professional fees, site selection, options, administrative fees and other expenses. Groups who go to CMHC early in the concept stage may be eligible for an initial amount of not more than \$500. When their planning is further developed, they may apply for additional start-up funds of up to \$10,000.

Mortgage loans for up to 100 per cent of the value of the project are available to non-profit co-operatives from CMHC under The National Housing Act. Ten per cent of the loan may be forgivable with the remaining 90 per cent to be repaid at a preferred interest rate.

Funds are also available to non-profit groups wishing to renovate existing buildings. Under the Residential Rehabilitation Association Program (RRAP), up to \$3,750 per unit may be obtained by qualified groups and this amount may be totally forgivable.

The provincial government offers additional financial assistance to co-operative groups through the community sponsored housing branch of the Ministry of Housing. Up to 10 per cent of the value of the project, spread over the first 15 years, is available to reduce mortgage payments. To qualify for this assistance the co-operative must provide up to 25 per cent of the units for rent supplement.

Details of these programs are available from the CMHC and from the community sponsored housing branch of the Ontario Ministry of Housing.

In general the co-operative should:

- contact the CMHC branch office manager to apply for start-up funds.
- when project costs are fairly well

established, contact the Ministry of Housing for financial assistance if the project will qualify.

The cost advantage

In addition to the advantages of government grants and mortgage assistance, however, there is a major cost-saving factor. Because there is no speculator or developer to make a profit, the units can be built at cost.

The membership of a co-operative holds down any increases to those made necessary by increased labor or maintenance costs or taxation. Because it is essentially a non-profit organization, there is no advantage to adding to costs of operating and maintaining the unit.

Other benefits

If you decide to move, submit your notice in writing to the secretary. The co-op will buy back your share(s) at par (or at a sum less than par if you agree.) In a member loan co-op, your demand loan will be repaid. In this way you have the mobility of rental accommodation.

You may decorate your unit as you wish and, as long as you don't infringe on the rights of others, you have the other advantages of home ownership.

The rules and regulations will state the responsibilities of members: whether weekly maintenance labor is required and any other obligations. You may not be arbitrarily evicted. A member may be expelled only by a majority vote of the board of directors, and reasons for the expulsion must be stated. Members have the right to appeal the expulsion in a vote by the general membership.

Because they are so directly affected by decisions, prospective members should be sure that they agree with both the concept and the objectives of the group. Major group purchases and projects, such as recreational facilities or swimming pools, are the financial responsibility of all members once passed by the majority.

Co-operatives and condominiums

Condominiums and co-operatives are two comparatively recent types of accommodation available to Ontarians. Because they are often not accurately described, there is confusion between the two.

In a condominium, you own your own unit and, in addition, a portion of that property that you have in common with other owners (hallways, parking areas, recreation facilities and others). You buy the unit, pay the down payment and arrange the mortgage as you would in any ownership agreement.

In addition to the monthly mortgage, there is a stipulated sum for the maintenance of the exterior of the building and the maintenance of the common elements. This sum is proportional to the size of the unit you own.

In a co-op, you do not own your unit, but a share (or shares) in the corporation which in turn owns the entire project.

The monthly fee will be proportional to the size of the unit. Necessary maintenance fees are added.

In both types of accommodation the majority rules: you pay for alterations and additions agreed to by the membership and you agree to abide by all regulations, which may change as the needs of residents change.

Conclusion

Check carefully before you invest. Look into all the terms of any agreement before you sign.

Co-operatives may be the answer to your housing, day care or retail problems, but there are limitations: be an informed consumer.



For further information on housing co-operatives:

**Co-operative Corporations Services
Branch
Ministry of Consumer and Commercial
Relations
555 Yonge Street
Toronto, Ontario
M7A 2H6**

**Community Sponsored Housing Branch
Ministry of Housing
60 Bloor Street West
Toronto, Ontario
M7A 2M7**

**Ontario Regional Office
Central Mortgage and Housing
Corporation
145 King Street West
Toronto, Ontario
M5H 1J8**

**Co-operative Housing Foundation of
Canada
111 Sparks Street
Ottawa, Ontario
K1S 5B5**

Glossary:

Share capital co-operative: Patrons are required to invest a specified amount of money in the co-operative. They buy a share which is bought back by the co-operative when they withdraw.

Co-operatives without share capital: In lieu of purchasing a share, patrons agree to lend the co-op a specified sum of money.

Net surplus: The amount of money left over at the end of the fiscal year after all expenses have been paid.

Patronage return: The amount of money divided among the members from the net surplus, on the basis of patronage.

Deferred patronage return: The patronage return which is re-invested in the co-operative.

Compulsory loans: Money lent to the co-operative by the membership as a requisite of membership

Term loans: Sums of money lent to the co-operative for a specified length of time.

Equity financing: Financing by purchase of shares (share capital co-op).

Debt financing: Financing by loan (non share capital co-op).

Proxy: Allowing another to use your vote. This is impossible in a co-op.

Articles of incorporation: The document signed by the incorporators setting out terms and conditions. Available from the co-operative corporations services branch of the Ministry of Consumer and Commercial Relations.

Dissolution: The termination of a co-operative.



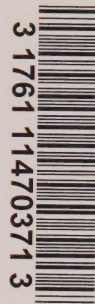
Par value: The face value of the share. In a co-op, this will be from \$1 to \$100.

Class of shares: If there is only one class of shares, they will be common shares. If a co-op has more than one class of shares, there will also be one or more class of preference shares. See section 26 of the Act for details.

Loan certificates: The document stating the amount and terms of the loan.

A COMPARISON

ITEM	CO-OPERATIVE HOUSING	APARTMENT RENTAL	CONDOMINIUM	HOME OWNERSHIP
control of cost	by occupants and majority vote	by management	by occupant and management	by owner
form of tenure	membership and occupancy agreement designed by members	lease-hold controlled by management	by-laws and regulations set by developer & owners	ownership
management	controlled by members	management responsible to landlord	initially by developer; transferred to owners as units bought	by owner
rules, by-laws regulations	controlled by members	controlled by landlord	initially set by developer. May be changed by vote	none
superintendent	responsible to members	responsible to landlord	initially responsible to developer, then owners	none
use of open and common space	controlled by members	controlled by landlord	controlled by owners	controlled by owner
freedom to decorate	yes — exterior change requires vote	yes — with some restrictions	yes — exterior change requires vote	yes
deposit required when moving in	loan or share purchase and month's rent	first and last month's rent	down payment plus legal, real estate fees	down payment plus legal, real estate fees
notice when moving	stipulated in agreement	term of lease	find a buyer	find a buyer
possibility of profit or loss	no	no	yes	yes



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